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1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF NEW YORK

3 -----x
4 CARNEGIE INSTITUTION OF
WASHINGTON and M7D
CORPORATION,

5 Plaintiffs,

New York, N.Y.

6 v.

20 Civ. 189(JSR)

7 PURE GROWN DIAMONDS, INC., and
8 IIA TECHNOLOGIES PTE., LTD.,

9 Defendants.

10 -----x
11 CARNEGIE INSTITUTION OF
WASHINGTON and M7D
CORPORATION,

12 Plaintiffs,

13 v.

20 Civ. 200(JSR)

14 FENIX DIAMONDS LLC,

15 Defendant.

16 -----x
17 Teleconference

18 Oral Argument

19 August 10, 2020
20 3:00 p.m.

21 Before:

22 HON. JED S. RAKOFF,

23 District Judge
24
25

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1 THE COURT: This is Judge Rakoff. Would counsel
2 please identify themselves.

3 MR. WIKBERG: Hello, your Honor, this is Terry Wikberg
4 from the law firm of Perkins Coie on behalf of plaintiffs. And
5 with me today is Michael Chajon, who will be presenting our
6 argument today, and Mr. Matthew Moffa.

7 THE COURT: Okay. Anyone else?

8 MR. AIRAN: Yes. Good afternoon, your Honor. This is
9 David Airan, of the law firm Leydig Voit & Mayer, on behalf of
10 the Fenix Diamonds defendants in the 200 case, 20 Civ. 200.

11 THE COURT: Okay.

12 MR. LONG: And this is J. Preston Long, with Finnegan
13 Henderson, on behalf of the defendants in the 189 matter, Pure
14 Grown Diamonds, Inc. and IIA Technologies PTE. I am joined
15 today by co-counsel, Anand Sharma.

16 MR. LOWER: And this is Brugh Lower, from Gibbons,
17 also on behalf of Pure Grown Diamonds and IIA Technologies,
18 co-counsel with Finnegan Henderson.

19 THE COURT: Anyone here for the plaintiff?

20 MR. WIKBERG: Your Honor, this is Terry Wikberg. I
21 previously identified --

22 THE COURT: Oh, yes. Thank you very much.

23 So we are here on the motion to dismiss certain
24 counterclaims and affirmative defenses. In my naiveté, I
25 thought these were motions addressed to the pleadings, but

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1 defense counsel has favored the Court with all sorts of
2 evidentiary material going well outside the pleadings.
3 Plaintiffs' counsel not so much, although has made reference to
4 certain deposition testimony. What possible justification is
5 there for that? And this is addressed first to defense
6 counsel.

7 MR. AIRAN: Your Honor, I will speak first on behalf
8 of the Fenix defendants in the 200 case. The primary material
9 that we relied on in opposition to the motion to dismiss was
10 the pleading itself, as well as the transcript of Dr. Frushour
11 in --

12 THE COURT: The transcript of the deposition and then
13 I am also seeing in the submission by your co-counsel, various
14 notes, handwritten notes, and other sort of stuff, and I ask
15 you again what conceivable, possible justification did any of
16 you have for submitting any of that in connection with a motion
17 directed at the pleadings?

18 MR. LONG: Yes, your Honor. J. Preston Long on behalf
19 of the other defendants in the 189 matter.

20 Those materials were submitted in response to the
21 deposition testimony to rebut the points made in the opening
22 brief --

23 THE COURT: So the fact that the plaintiffs introduced
24 something improperly, which could have been met by a motion to
25 strike or simply two sentences pointing out how that was

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1 improper, was instead met by a slew of dozens, maybe even
2 hundreds, of papers of stuff from you and your colleagues. Is
3 that your position, that that is justifiable?

4 MR. LONG: I can tell that perhaps the Court would
5 have preferred that we had gone the other route by telling
6 you --

7 THE COURT: The Court is very seriously considering
8 sanctions on all the counsel here. You are all with
9 established firms. You know better than this. You know much
10 better than this.

11 My tentative view -- but I will hear if anyone wants
12 to oppose this -- is to impose a \$10,000 fine on plaintiffs'
13 counsel for wrongly submitting the deposition and a \$25,000
14 fine on defense counsel jointly and severally for their gross
15 improper submissions in response, all those monies to be paid
16 by the lawyers and not by the clients.

17 Anyone want to challenge that?

18 MR. AIRAN: Yes, your Honor. David Airan on behalf of
19 the Fenix Diamonds defendants.

20 Your Honor, we did submit the deposition in response
21 to a footnote in, I believe, plaintiffs' opening brief were
22 they submitted authority saying that it was appropriate for the
23 Court to consider the deposition transcript. So primarily our
24 citations were to the affirmative defenses and counterclaims
25 and the deposition that plaintiffs had submitted. So we

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1 thought, in view of the authority cited by plaintiff in their
2 opening brief, that it was appropriate to respond to that by
3 submitting the additional sections of that transcript. That's
4 what we were doing. We submitted two exhibits --

5 THE COURT: Well, it was a lot more than the
6 transcript. Although it was substantially -- there were many
7 pages from the transcript. Let me just find the submission.
8 Let's see.

9 There is, first, the declaration of Mr. Long which
10 attaches excerpts of the deposition; a laboratory notebook;
11 excerpts from the laboratory notebook; a combined declaration
12 and power of attorney; letters exchanged between Paul Kokulis
13 and James Singer; a declaration executed by Russell Hemley,
14 etc.; a declaration executed by Gary Kowalczyk.

15 Let's just take, for example, the exchange of letters.
16 How is that, even if you thought there was anything to this
17 ridiculous position of plaintiffs that they could cite to the
18 deposition, how is that remotely within the bounds of just
19 responding?

20 MR. AIRAN: So, your Honor, I can only speak on behalf
21 of Fenix Diamonds, and we did not cite or submit any of that
22 material.

23 THE COURT: All right, well, then let me hear from the
24 counsel who did submit it. Hello?

25 MR. CHAJON: Your Honor, this is Michael Chajon, from

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1 Perkins Coie, on behalf of the plaintiffs.

2 Respectfully, we weren't the ones that introduced
3 these materials. The defendants did. They relied on them
4 extensively in their pleadings.

5 THE COURT: Excuse me. I asked a question that was
6 directed to counsel from Finnegan Henderson. Would that
7 counsel please respond?

8 MR. LONG: Yes, your Honor.

9 The materials were submitted in support of the
10 pleadings. The declarations, for example, are part of the
11 public record of the patents in this case, and our
12 understanding for those materials is that it is proper to rely
13 on them.

14 THE COURT: And what's your authority for that on a
15 motion addressed to the pleadings.

16 MR. LONG: I don't --

17 THE COURT: Letters -- by the way, there is no
18 indication in the actual submission, the declaration from
19 Mr. Long, that these were part of any record, but assuming they
20 were, so what?

21 MR. LONG: I think there is Federal Circuit case
22 law -- I apologize I don't have a case at the tip of my fingers
23 right now, but I understand that it is permissible to cite to
24 the public file history of the patents --

25 THE COURT: You can cite to the patents, that's public

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1 record.

2 MR. LONG: As well as --

3 THE COURT: You can cite to the entire prosecution
4 history on a motion directed at the pleadings?

5 MR. LONG: That's my understanding, your Honor.

6 THE COURT: All right. I will give the parties until
7 5 p.m. tomorrow to send me letters not to exceed five
8 single-spaced pages justifying, if they can, why any or all of
9 this evidentiary material was presented to the Court on a
10 motion directed at the pleadings. If I am satisfied that there
11 is ample authority, I will not impose sanctions. If I am not
12 satisfied, I will impose the sanctions previously mentioned.

13 Now let's move on to the merits of the motion. Let me
14 hear first from moving counsel.

15 MR. CHAJON: Good afternoon, and may it please the
16 Court, this is Michael Chajon.

17 THE COURT: So far very little has.

18 MR. CHAJON: Understood, your Honor. This is Michael
19 Chajon from Perkins Coie on behalf of the plaintiffs.

20 Plaintiffs ask the Court to keep two things in mind as
21 it considers our motions to dismiss the inequitable conduct
22 claims:

23 The first shows that defendants, what they really have
24 here is a claim in search of some facts, and we see this in how
25 their pleadings have evolved since May. This is the

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1 defendants' second try at raising inequitable conduct claims.
2 They first tried in their original pleadings three months ago,
3 and at that time, they targeted a long list of people,
4 including Dr. Robert Frushour, an inventor on the predecessor
5 '610 patent.

6 So, in May, the defendants accused Dr. Frushour of
7 defrauding the patent office. After the plaintiffs moved to
8 dismiss, the defendants, they deposed Dr. Frushour --

9 THE COURT: Wait a minute. Excuse me. I don't
10 understand why any of this is before me. The, I thought,
11 simple question raised by your motion was whether they have
12 sufficiently alleged, consistent with the legal standards,
13 affirmative defense X or counterclaim Y, and the history of how
14 they got there is neither here nor there. Either they have
15 adequately alleged these counterclaims and defenses, or they
16 have not. So don't waste my time with telling me the history
17 of the universe. Why are these, as they are presently worded,
18 insufficient to sustain their affirmative defenses again?

19 MR. CHAJON: Right. Agreed, your Honor.

20 So, these allegations fail because the inequitable
21 conduct claims are implausible, and it's unreasonable to infer
22 that anybody at Carnegie or Dr. Li acted with any deceptive
23 intent. And the legal standard, you know, really plays in
24 here. But let me mince no words. The claims are implausible
25 and they fail under any pleading standard. The rub for the

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1 defendants is that the heightened standard applies because
2 inequitable conduct claims sound in fraud. So we are dealing
3 with Rule 9, which requires pleading with particularity. We
4 are dealing with --

5 THE COURT: Let me make sure I understand the facts
6 that are alleged, and correct me, because it's been several
7 days since I last looked at these papers. But if I recall
8 correctly, the original patent was in the name of Dr. Frushour
9 and Dr. Li. Eventually, a correction was put in by or on
10 behalf of Carnegie saying that Frushour had nothing to do with
11 it and it should be just Dr. Li, and then later on some other
12 people were added.

13 Do I have that much right?

14 MR. CHAJON: Yes, your Honor. This is Michael --

15 THE COURT: All right.

16 MR. CHAJON: -- Chajon. Um-hmm.

17 THE COURT: So they are now saying that you lied; that
18 that Frushour was an inventor. That may be totally bogus and
19 it may turn out that they will not remotely survive summary
20 judgment on that allegation, but why is that allegation as a
21 facial matter not enough?

22 MR. CHAJON: Sure. So I think your Honor kind of hit
23 it on the head there that the deceptive intent, the inequitable
24 conduct allegations, they all flow from this premise, this idea
25 that Dr. Frushour was correctly named an inventor on the '610

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1 patent, and that he was removed only through fraud, and we see
2 that proclamation that Dr. Frushour was a rightfully named
3 inventor all throughout the pleadings. But that assertion,
4 that's a legal conclusion. It's not presumed true on a motion
5 to dismiss. That's *Iqbal*. We cited the *Garcia v. Watts* case
6 on that point. Inventorship is a question of law. You see
7 that in the *C.R. Bard* case we cited. So the necessary premise
8 from which all of the inequitable allegations flow, it's not
9 presumed true just because the defendants say it is. And with
10 no foundation, the claims, they just collapse.

11 THE COURT: Wait a minute. You have just said several
12 things that I don't fully understand.

13 Are you simply saying that they did not allege more
14 specific facts to show that Dr. Frushour was an inventor or
15 coinventor or are you saying something else?

16 MR. CHAJON: No. Your Honor, I'm saying -- you are
17 correct. So, they allege facts about Dr. Frushour's supposed
18 role based on his deposition testimony and his oath that went
19 into the patent office, but the facts that are alleged, they
20 just don't -- they can't lead to the reasonable inference that
21 Dr. Frushour was an inventor, because it's clear from those
22 same documents that he lacked the information that he needed to
23 determine if he was.

24 So we think, there is just -- you know, based on the
25 pleadings, based on the documents the defendants rely on for

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1 their pleadings --

2 THE COURT: So this, as I understand, is why you
3 thought you could cite the deposition, since it was responsive
4 to what you think they were relying on in their complaint or in
5 their counterclaims and answer and so forth. Do I have that
6 right?

7 MR. CHAJON: Yes. That's right, your Honor.

8 THE COURT: All right. So I'm not quite clear, on the
9 facts, what you are saying makes the claim -- you know, let us
10 say that, based on whatever sources, they assert Dr. Frushour
11 was the inventor because he did X and Y and because he signed
12 Z. It cannot be that you are seeking to dismiss the claim on
13 the grounds that he is lying. That clearly would be a summary
14 judgment or trial, usually a jury trial issue. What you are
15 saying, I think, with respect to at least the deposition-based
16 portion is that they are taking it out of context. But on a
17 motion to dismiss for pleading, is that really a ground on
18 which I can dismiss? That seems to me on its face something
19 that can be argued both ways.

20 MR. CHAJON: Your Honor, we believe these claims can
21 be dismissed because even with, you know, this presumed truth
22 that Dr. Frushour was an inventor, they haven't alleged facts
23 that make it reasonable to infer that Carnegie or anybody at
24 Carnegie or that Dr. Li knowingly made a false statement to the
25 patent office or material omission and that they did so with an

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1 intent to deceive, and those are their --

2 THE COURT: I think they are alleging there -- and,
3 again, it has been a couple of days since I looked at this --
4 but my recollection is they are in effect alleging a kind of
5 reckless disregard, that he wasn't contacted, this was an
6 assertion made without any adequate basis to make the assertion
7 in connection with the amended patent, and so that shows the
8 requisite knowledge and intent.

9 MR. CHAJON: Your Honor, we don't believe that those
10 alleged facts make it reasonable to infer deceptive intent on
11 behalf of Carnegie or anybody at Carnegie. For example, this
12 notion that Carnegie failed to contact Dr. Frushour, you know,
13 that obligation did not exist. Their -- it is not required by
14 patent office rules or regulation or statute that Carnegie
15 reach out, have had reached out to Dr. Frushour or that they
16 had collaborated, if you will, in the correction --

17 THE COURT: So let me make sure I understand that
18 argument.

19 So there is a patent that's been approved that says
20 that Dr. Frushour is the coinventor, and in your view, if
21 someone tells you, oh, no, he wasn't really the inventor, you
22 can go ahead and file to have him removed as an inventor
23 without any further inquiry on your part? Is that what you are
24 saying?

25 MR. CHAJON: No, your Honor. That's not what I am

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1 saying, and that's not what happened here. We had the
2 declaration from the Carnegie scientists that went into the
3 prosecution record before that where the Carnegie scientists
4 explained their role. It is evident from that fact and from
5 the prosecution --

6 THE COURT: Assuming that is properly before me, which
7 is, of course, a question we have already been debating.

8 But, anyway, go ahead.

9 MR. CHAJON: Yeah, your Honor, that declaration is
10 mentioned in detail in the pleadings, so we do believe that it
11 is --

12 THE COURT: Okay, all right. Yeah, if it's mentioned
13 in the pleadings, you are right, forgive me, then it can be
14 considered in full.

15 MR. CHAJON: Right.

16 So just the notion that Carnegie conducted no
17 investigation, that it buried its head in the sand and was
18 willfully blind, that just doesn't follow from the facts that
19 are in the pleadings and from, you know, the prosecution
20 records.

21 THE COURT: All right. Let me hear from defense
22 counsel.

23 MR. AIRAN: Do you have a preference, your Honor, as
24 to which defense counsel goes first?

25 THE COURT: Whoever is sufficiently masochistic to

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1 want to go first is fine.

2 MR. AIRAN: Maybe I will take the lead, then. This is
3 David Airan on behalf of the Fenix defendants.

4 I think your Honor got it exactly correct when you
5 said that the issue is whether Dr. Frushour is an inventor and
6 whether there was a false declaration in connection with a
7 statement that they made in the reissue application declaring
8 him not to be an inventor.

9 The linch pin of the inequitable conduct defense is
10 that Dr. Frushour was an inventor and is an inventor. He was
11 presumptively named an inventor in the '610 patent, which was
12 the original patent. He did the work that was related to that
13 patent. He wrote the patent application. So there is his
14 testimony in the record through his original oath, there is
15 deposition testimony, and then there is the corroboration of
16 the patent application itself, which he wrote. So it is our
17 view that we have adequately pleaded that Dr. Frushour was an
18 inventor.

19 Secondly, the inequitable conduct defense relates to
20 the oath or the declaration that was made under 18 U.S.C. §
21 1001 that stated that Dr. Frushour was not an inventor and that
22 was an untrue statement. Because that was an untrue statement,
23 the entire patent is invalid or is unenforceable due to
24 inequitable conduct. And we have cited three Federal Circuit
25 cases in which the Court of Appeals has affirmed findings of

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1 inequitable conduct based on an intentional decision to omit or
2 to improperly represent inventorship, and so we believe we have
3 stated a case for inequitable conduct on the basis of the facts
4 pleaded.

5 As to intent to deceive, it is very difficult for me
6 to imagine that there is -- that there is anything other than a
7 plausible intent to deceive when a party submits a false
8 declaration under oath stating that Dr. Frushour was not an
9 inventor. The patent office accepted that statement and it
10 corrected the patent, if you will, to declare him not to be an
11 inventor. And in our view that was not a victimless decision
12 by Carnegie. They attacked Dr. Frushour in correcting the
13 patent. They besmirched his dignity, his reputation, his
14 legacy. He is out there with the patent, the '610 patent, and
15 they take it away from him, and nobody wants that reputational
16 hit.

17 So it's our view that Carnegie, at the very minimum,
18 acted with willful blindness with respect to Dr. Frushour's
19 contributions here. for the price of a telephone call, they
20 could have said, hey, what did you do here? Let us know. Let
21 us have this discussion.

22 But Carnegie knew at the time of the original patent
23 application that the inventorship question was hotly disputed.
24 They knew when they filed their own patent application that
25 Dr. Frushour and Dr. Li claimed to be the inventors and the

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1 Carnegie scientists claimed that they alone were the inventors.
2 They submitted a separate patent application that did not
3 identify either Dr. Frushour or Dr. Li as inventors.

4 So Carnegie, if they wanted to do this fairly and they
5 wanted to give Dr. Frushour an opportunity to defend his
6 position as to inventorship, had a few options available to
7 them. The first option was to move forward with the patent
8 application that they had filed and try to prove in the patent
9 office that they were the first and true inventors. They
10 didn't do that. They abandoned --

11 THE COURT: Is Dr. Frushour currently employed by any
12 of the defendants?

13 MR. AIRAN: He is not, your Honor. It is my
14 understanding that he is retired.

15 THE COURT: So while he may have been injured, how are
16 you injured?

17 MR. AIRAN: The problem is with the false declaration.
18 The injury is to the patent office. They intended to deceive
19 the patent office, and did deceive the patent office, in
20 issuing a patent to the Carnegie scientists and Dr. Li and
21 removing Dr. Frushour, who is an inventor. And under the case
22 law that we have cited, that is inequitable conduct. In fact,
23 in the *Frank's Casing* case that we cited --

24 THE COURT: So let me make sure I understand you. Are
25 you saying you don't have to show any injury of this

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1 inequitable conduct?

2 MR. AIRAN: That is correct, your Honor. The injury
3 is upon the patent and the patent office itself. There is a
4 fraud here when they declared Dr. Frushour not to be an
5 inventor.

6 And the *Frank's* case, from the Federal Circuit, we
7 think is perhaps the most illustrative on that point, where
8 even the true inventor was denied an opportunity to have his
9 patent because of the fraud of another person. So it is an
10 extreme remedy, but the entire patent system depends on the
11 candor of the applicants, and when someone like Carnegie makes
12 a false declaration saying that Dr. Frushour is not an
13 inventor, when in fact he was an inventor, that affects the
14 validity of their patent. And when you look at the declaration
15 that the Carnegie employee signed stating that Dr. Frushour was
16 not an inventor, they did expressly recognizes that the
17 validity of the patent may be called into question if that
18 statement is false.

19 THE COURT: All right. Before I hear from plaintiff
20 in rebuttal, anything from codefendant?

21 MR. LONG: Yes, your Honor.

22 On the question of injury, I just would like to at
23 least point out that in a sense this is rewriting history a
24 little bit. You know, Carnegie inevitably is going to go
25 before the jury and say, you know, look at the great things

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1 we did and that we invented, and obviously there is some
2 question to that. And so just because they have been able to
3 put their name on the patent, that at least is an injury. But
4 I agree that we don't need to show one here for inequitable
5 conduct.

6 I would also like to just point out that, separate and
7 aside from the fact of who was an inventor -- and we obviously
8 believe that Frushour was an inventor -- the mere fact that, in
9 the reissue declaration, Carnegie's representative,
10 Mr. Kowalczyk, and it was filed by their outside counsel,
11 Mr. Kokulis, the mere fact that they said they knew something
12 when they didn't, they said we know Frushour is not an inventor
13 and that our scientists are, that was a misrepresentation, and
14 they knew it. They knew they didn't have enough information
15 because they knew -- no one knew what Frushour did or when he
16 did it. And without knowing that information, you have no
17 good-faith basis for saying we know there was an error.

18 In fact, the brief of plaintiffs recognizes this. In
19 their reply, at pages two to three, it said, that "Carnegie has
20 no need to contact Frushour if they know their work constituted
21 invention and that it predated Frushour's activity." But, you
22 know, the pleadings here clearly allege that they had no such
23 knowledge. We refer to the declaration submitted in the failed
24 interference, which expressly states that the scientists had no
25 pertinent knowledge of Robert H. Frushour. We referenced the

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1 several letters in which Carnegie expressly said, we have no
2 intent and no obligation to contact Dr. Frushour to find out
3 what he did or when.

4 THE COURT: I can't consider any of that. That's, of
5 course, a question you are going to be addressing in your
6 letter.

7 MR. LONG: Yes, your Honor. We reference the letter
8 specifically in our pleadings, which is why they are part of
9 the pleadings.

10 THE COURT: Okay. I agree with you -- I will have to
11 obviously check -- anything referenced in the pleadings can be
12 cited, but not if it's not cited in the pleadings, it can't be,
13 in my view. But I'm waiting for you to educate me further on
14 that score.

15 MR. LONG: Thank you.

16 THE COURT: All right. I'm sorry. I interrupted you.
17 Anything further you wanted to say?

18 MR. LONG: Yes. I will just say that the plaintiffs
19 essentially admit that this didn't happen. Again, in their
20 reply, at page six, they say "Defendants latch on to a supposed
21 lapse on Carnegie's part." They say that Carnegie couldn't
22 assess Frushour's inventorship because they had no knowledge of
23 Frushour, and they basically admit that that's what happened
24 because they say if that defect is fatal to Carnegie, it is
25 likewise fatal to defendants.

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1 Well, that's not true because Dr. Frushour didn't
2 have to submit a declaration saying that Carnegie is not an
3 inventor. It goes the other way around. Carnegie had to
4 expressly say, We have a good-faith basis for saying that
5 Frushour was not an inventor and that our folks were. And to
6 have that good-faith basis, they had to know what Frushour did
7 and when. That is the *3D Medical Imaging* case that we cited.
8 That's grounds for inequitable conduct, saying that you know
9 something that you don't to the patent office.

10 So I think, you know, in addition to all of the things
11 that our codefendant said, that's also a basis for inequitable
12 conduct here. Separate and aside from the, you know, who is
13 the true inventor, you can't tell the patent office you know
14 something when you know you don't know it. And we have
15 sufficiently pled that, certainly, under Rule 9(b).

16 THE COURT: All right. Let me hear from plaintiffs'
17 counsel.

18 MR. CHAJON: Your Honor, this is Michael Chajon from
19 Perkins.

20 This allegation that Carnegie was speaking about
21 something it didn't know about or that it said anything false
22 is just -- it's not supported by the facts, the alleged facts
23 in the pleadings. We know from the pleadings that the Carnegie
24 scientists had gone on record with the PTO and explained their
25 roles in the invention and their communications with Phoenix

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1 Crystal, Dr. Frushour and Dr. Li's company. So per the
2 pleadings themselves, Carnegie had a basis to know what
3 Dr. Frushour, what Phoenix was doing. They also knew what they
4 were doing. So there is no -- there is no legs to this
5 argument that Carnegie was speaking to something they didn't
6 have information about or that it was willfully blind to the
7 facts it needed to know.

8 And even beyond that, your Honor, they are still
9 missing the second half of the inequitable conduct analysis,
10 which is the deceptive intent. Again, we heard from Fenix's
11 counsel this notion that deceptive intent is shown because they
12 didn't call Dr. Frushour. They had no obligation to call
13 Dr. Frushour. That's not required by the rules. They are the
14 owner, they are the assignee of the patent. The rules make it
15 clear that, you know, they have certain rights they can
16 exercise and certain corrections. They also had already gone
17 on record with the PTO and told them -- you know, explained
18 their role. After they acquired the '610 patent, had they kind
19 of done nothing and just let it stand as it was with the
20 inventorship like it was, that arguably would have risked the
21 validity and enforceability of their patent, had they not
22 corrected it after they had gone on record with the PTO telling
23 them there was an issue.

24 What else do the defendants --

25 THE COURT: They -- excuse me.

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1 MR. CHAJON: Yes.

2 THE COURT: With respect to alleging intent, just so
3 that I am clear what your argument is, Rule 9(b), of course,
4 requires fraud to be pled with particularity, but not states of
5 mind. It is different, for example, from the PSLRA and
6 securities cases where you have to make a factual showing of
7 fraudulent intent. There are some cases under 9(b) that
8 support the notion that you also have to show intent, but they
9 are -- and this is in the context of fraud, but they are a
10 minority.

11 Now, I think it is undisputed that, to prevail on
12 these claims, they have to show all elements by clear and
13 convincing evidence. So that may be where you find the
14 suggestion that they also have to show more than they have
15 shown of intent. But otherwise I'm not totally sure where you
16 are getting that from.

17 MR. CHAJON: Sure, your Honor. I can address that.

18 So the application of Rule 9(b) to inequitable conduct
19 pleadings, that's the *Exergen* case from the Federal Circuit;
20 and under that case, it has to be reasonable to infer the
21 scienter, it has to be reasonable to infer from the alleged
22 facts that the applicant, the patent applicant, had knowledge
23 of the supposedly withheld material or the supposedly false
24 representation. And it also has to be reasonable to infer from
25 the alleged facts that the false statement or misrepresentation

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1 was made with an intent to deceive. That's what we are relying
2 on, your Honor, that they failed to meet this *Exergen*
3 requirement for particularized facts that make it reasonable to
4 infer that Carnegie acted with deceptive intent or that Dr. Li
5 did.

6 THE COURT: So I will read those cases carefully. I
7 have not done so yet. But maybe you can just tell me, from
8 your familiarity with the case, so since 9(b), on the face of
9 9(b), excludes states of mind from its particularity
10 requirement, but of course that's in the context of fraud
11 generally, where did the Federal Circuit get this heightened
12 pleading requirement with respect to intent?

13 MR. CHAJON: Well, your Honor, I think it came from
14 Rule 9, and it also comes from the kind of interplay between
15 the heavy burden on the merits stage and the pleadings
16 requirement. There is a very heavy burden set at the merits
17 stage for inequitable conduct. To ultimately prevail, the
18 defendants need to show that the inference of deceptive intent
19 is the single most reasonable inference able to be drawn from
20 the evidence. That's from Federal Circuit cases, the
21 *Therasense* case the *Star Scientific* case, and because of that
22 high bar on the merits --

23 THE COURT: So, I am just looking at Rule 9(b). "In
24 alleging fraud or mistake, a party must state with
25 particularity the circumstances constituting fraud or mistake.

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1 Malice, intent, knowledge, and other conditions of a person's
2 mind may be alleged generally."

3 So Rule 9(b), on its face, accepts from the
4 particularity requirement matters of intent. So I come back
5 to -- and, again, I haven't looked at the Federal Circuit case,
6 and, you know, I am bound by that case, although I will note
7 that I think the Federal Circuit has displaced the Ninth
8 Circuit as having the highest percentage of reversals by the
9 Supreme Court of the United States. But, nevertheless, I'm a
10 lowly district court. I am bound by what they say. But where
11 are they getting this? It can't be from Rule 9(b). I just
12 read it to you.

13 MR. CHAJON: Your Honor, I think -- let me see. I can
14 say this, which I think will hopefully put your Honor's mind at
15 ease a bit, is that our position and what we believe is that
16 these deceptive intent allegations are just not plausible.
17 Even putting aside the Rule 9 standard and *Exergen*, they are
18 just not plausible given the facts that are alleged.

19 THE COURT: I agree with you that plausibility has to
20 be shown.

21 MR. CHAJON: Right, and why do we think they are so
22 implausible? It is because -- it's what we were talking about
23 earlier, that the deceptive intent kind of allegations, they
24 all flow from these -- well, first from the obligations that
25 supposedly existed before the patent office that didn't. You

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1 can't infer deceptive intent from Carnegie's choice to do
2 things that were allowable under the rules.

3 What's left after that? The defendants, they point to
4 like this far-fetched scheme, some underhanded conspiracy
5 between Carnegie and Dr. Li to steal a patent, and they even
6 allege that Dr. Li struck some shady back-alley deal with his
7 friends, where he would help them, you know, Carnegie steal a
8 patent if they left him on as an inventor. There is no factual
9 support for any of those allegations. This incredible scheme,
10 it's implausible on its face, and you can't reasonably infer
11 inequitable conduct or deceptive intent from any of those
12 allegations.

13 What I will -- staying with Dr. Li for a minute, the
14 defendants, they really try to paint him between a rock and a
15 hard place. They argue that, no matter how you look at the
16 facts, he committed inequitable conduct. They allege that he
17 either failed to disclose Carnegie's role in the invention or
18 that he falsely attested to Frushour's inventorship status.
19 But what do they rely on for that? It's the unremarkable fact
20 that Dr. Li signed a standard form inventorship oath that went
21 in with the original application. And they read a lot into
22 that oath, but what did the oath say? Dr. Li, he just said:
23 "I believe I am an original, first and joint inventor of the
24 subject matter which is claimed and for which the patent is
25 sought." So he made no comment about anybody else's inventor

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1 status, just his own.

2 And what's more, it was true. He was and still is a
3 coinventor. The defendants don't dispute that. Dr. Li was
4 listed as a coinventor on the original application on the '610
5 patent, and he still is today on the reissued '189 patent. So
6 no inequitable conduct, no false statement, no material
7 omission, no deceptive intent can be inferred --

8 THE COURT: Dr. Li was submitting that on behalf of
9 Carnegie, right?

10 MR. CHAJON: No, your Honor. That oath was submitted
11 with the original application.

12 THE COURT: With the original. I see. Well, the
13 original named -- of course he didn't say he was the sole
14 inventor, because the original said there were two inventors.

15 MR. CHAJON: Right. All his oath said is that he was
16 a joint inventor. He didn't speak to anybody else's status.

17 THE COURT: So what was the basis on which the
18 application that was made to change this to remove
19 Dr. Frushour?

20 MR. CHAJON: Excuse me, your Honor? What was the
21 basis for Carnegie's choice to -- or Carnegie's correction of
22 the inventorship?

23 THE COURT: Yes.

24 MR. CHAJON: Well, Carnegie knew what it had done.
25 You know, the Carnegie scientists, as I mentioned, through that

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1 earlier interference declaration, were on record with the
2 patent office explaining their roles, so they were just seeking
3 to correct the patent, which is exactly what they have been
4 trying to do this whole time, from when they first learned that
5 Dr. Li and Dr. Frushour had filed this application. What did
6 they do? They filed their own application with the
7 declaration. They started interference, and then after that,
8 they took steps to acquiring the patent, and once they acquired
9 it, they corrected the inventorship and put their scientists
10 on.

11 THE COURT: Well, wait a minute. When you say they
12 corrected it, they corrected it by removing -- asking the
13 patent office to remove Dr. Frushour as an inventor, right?

14 MR. CHAJON: Yes, that's right.

15 THE COURT: What was the basis for doing that?

16 MR. CHAJON: It was their belief that there was an
17 error, that he was listed as an inventor by error. And --

18 THE COURT: A belief based on what?

19 MR. CHAJON: Well, based -- we are talking about the
20 pleadings here, your Honor, so what we do know from the
21 pleadings --

22 THE COURT: You are -- I was waiting for you to say
23 that, because this question goes beyond the pleadings, and if
24 you want to take the civil equivalent of the Fifth Amendment,
25 you can, but since both sides have been busy telling me how

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1 much beyond the pleadings one can go in this area, I thought
2 you might want to answer my question on the merits.

3 MR. CHAJON: We are happy to discuss the merits, if
4 your Honor would like.

5 THE COURT: No, just right now.

6 MR. CHAJON: Sure.

7 THE COURT: What was the basis on which you concluded
8 that Dr. Frushour was not an inventor?

9 MR. CHAJON: Your Honor, we are -- we are not ready to
10 proffer any facts on anything beyond what's in the prosecution
11 record and in the pleadings today, but what we do know from the
12 pleadings and the records is that Carnegie had its scientists
13 explain their role in the invention and their roles in the work
14 they did with Dr. Li while he was at Phoenix Crystal, so that
15 seems to have been the basis of their later choice to correct
16 the inventorship to remove Dr. Frushour.

17 THE COURT: All right.

18 Let me hear finally from defense counsel briefly if
19 they have anything further they want to say.

20 MR. AIRAN: Yes, your Honor. This is David Airan on
21 behalf of the Fenix defendants.

22 I would say that, in response to the intent to deceive
23 question, certainly submitting a false declaration that
24 Dr. Frushour was not an inventor is intending to deceive with
25 respect to the inventorship question, and that is the holding

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1 of the Federal Circuit cases that we have cited. And an intent
2 to deceive can be based purely on completely false statements
3 to the PTO. And that's what happened here, and that's our view
4 of what happened here. So we believe that we have adequately
5 pleaded intent to deceive as well.

6 That's my final comment.

7 THE COURT: All right.

8 MR. LONG: Your Honor, if I may just very briefly.

9 THE COURT: Absolutely.

10 MR. LONG: The exchange of plaintiffs kind of shows
11 why we have plausibly pled inequitable conduct here. The facts
12 only show, or at least all that's been pled and all that we can
13 tell from the record, the public record, is that the Carnegie
14 scientists knew what they did and they had a belief that they
15 invented something. What they didn't know was what Frushour
16 did and when he did it, and without that they had no good-faith
17 basis for removing him. And so that's the source of the
18 inequitable conduct here and I think we have pled that
19 adequately.

20 THE COURT: All right.

21 So I thank all counsel for their very helpful
22 arguments. Obviously I need to get now much more deeply into
23 the cases, but I will get you a decision by the end of August.

24 On the question of whether you exceeded what was
25 legally permitted in terms of submissions, I will look forward

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1 to seeing your letters by close of business tomorrow, and then
2 I will rule promptly on that.

3 Is there anything else that we need to take up today?

4 Very good. Thanks very much. Bye-bye.

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